

**Item 1 – Cover Page**



**Form ADV Part 2A**

**Investment Adviser Brochure**

**Parsec Financial Management, Inc.**

**6 Wall Street**

**Asheville, NC 28801**

**828-255-0271**

**[www.parsecfinancial.com](http://www.parsecfinancial.com)**

**March 2021**

This Brochure provides information about the qualifications and business practices of Parsec (“Firm,” “we,” “us,” “our”). If you have any questions about the contents of this Brochure, please contact Name of Person, Harli Palme, Chief Compliance Officer, 828-255-0271.

Additional information about our Firm is also available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

We are a registered investment adviser. Please note that use of the term “registered investment advisor” and a description of the Firm and/or our employees as “registered” does not imply a certain level of skill or training. For more information on the qualifications of the Firm and our employees who advise you, we encourage you to review this Brochure and the Brochure Supplement(s).

## **Item 2 – Material Changes**

### **Annual Update**

In this Item of Parsec Financial Management, Inc.'s (Parsec or the Firm) Form ADV 2, the Firm is required to discuss any material changes that have been made to Form ADV since the last Annual Amendment, March 30, 2020.

### **Material Changes since the Last Update**

Since the last Annual Amendment filing, we have no material changes to report.

### **Full Brochure Available**

Parsec's Form ADV 2 may be requested at any time, without charge by contacting Vicki Oxner, at 828-255-0271.

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## **Item 4 – Advisory Business**

Parsec Financial Management, Inc. (Parsec or the Firm) was founded in 1980 by William Barton Boyer who is a principal owner of the Firm. All employees are allowed the opportunity to participate in ownership by buying privately held stock in the firm. Ownership in the Firm is a foundation for our succession plan and an opportunity for all employees to be part of the team.

### ***Types of Advisory Services***

Parsec offers three main services to clients:

1. Investment management and financial planning for individuals,
2. ERISA consulting and employee education for employer-sponsored retirement plans, and
3. Trust services through a third-party corporate trustee.

For individual clients and their families, Parsec provides investment management of client assets. Parsec obtains background information about each client's current financial circumstances, investment objectives and risk tolerance through an interview and information gathering process. This information helps to create the investment policy statement, which establishes the client's portfolio asset allocation.

Before investing client assets, a proposed portfolio is presented to the client. Upon client approval of investment recommendations, Parsec will create a portfolio consisting of a variety of securities, such as individual stocks, bonds, exchange-traded funds, and no-load and load-waived mutual funds.

Clients have the opportunity to place reasonable restrictions on the types of investments that will be made on their behalf. All limitations and restrictions placed on accounts must be presented to Parsec in writing. Clients will retain individual ownership of all securities. Advisors are available on an ongoing basis to answer any questions regarding their portfolio or other financial matters. A formal review of accounts is done two to four times per year and rebalancing is accomplished if necessary.

In addition to investment management, many clients receive a financial plan. The plan may include recommendations for budgeting, goal setting, insurance, taxes, investments, and estate planning, depending on each client's unique situation. Though Parsec does not provide legal or insurance advice, advisors may educate clients about personal situations for which they may want to consult a legal or insurance professional. Parsec uses financial planning software that details assets, liabilities, expenses, cash flow, asset projections, and other details. Financial plans and investment policy statements are typically reviewed annually and updated, as necessary. Parsec may discuss income tax planning strategies and concepts. In the planning process any such discussion is intended to be conceptual in nature only. Clients should consult their tax advisor or engage Parsec Tax Services as necessary for income tax compliance and planning needs outside of the financial planning environment. Clients who engage Parsec Tax Services for tax planning and or compliance will enter into a separate service agreement outlining the nature of the engagement.

Parsec also provides ERISA consultation via asset management to commingled retirement plans, as well as participant-directed retirement plans with daily valuation options. We offer model portfolios for the participant-directed plans that are updated and rebalanced periodically, typically on a quarterly basis. Employee education is provided yearly, or as requested by the plan sponsor, and is tailored to the needs of the clients.

Parsec uses a third-party corporate trustee for some of Parsec's clients. The Trustee will collect and distribute income, provide recordkeeping, produce required tax reporting and provide for the administration and disposition of trust assets as directed by the governing document.

Parsec also provides tax preparation services to clients.

### ***Wrap Fee Programs***

Parsec does not participate in a Wrap Fee Program.

### ***Fiduciary Statement***

Parsec and its employees are fiduciaries who must take into consideration the best interests of the Firm's clients. Parsec will act with competence, dignity, integrity, and in an ethical manner, when dealing with clients. Parsec will use reasonable care and exercise independent professional judgement when conducting investment analysis, making investment recommendations, trading, promoting our services, and engaging in other professional activities.

As a fiduciary, Parsec has the obligation to deal fairly with its clients. Parsec has the following responsibilities when working with a client:

- To render impartial advice;
- To make appropriate recommendations based on the client's needs, financial circumstances and investment objectives;
- To exercise a high degree of care and diligence to ensure that information is presented in an accurate manner and not in a way to mislead;
- To have reasonable basis, information, and understanding of the facts in order to provide appropriate recommendations and representations;
- Disclose any material conflict of interest in writing; and
- Treat clients fairly and equitably.

### ***Client Assets***

Total Assets under Management as of December 31, 2020: \$3,427,806,357: Discretionary \$3,227,398,811 and Non-Discretionary \$ 200,407,546.

## **Item 5 – Fees and Compensation**

### ***Investment Management Fees***

The following annual fee rate schedule applies to individual clients, corporate brokerage accounts, and commingled ERISA qualified retirement plans:

<b>Asset Level</b>	<b>Annual Rate</b>
\$1 - \$1,000,000	1.00%
Next \$1 million (\$1,000,001 - \$2,000,000)	0.80%
Next \$3 million (\$2,000,001 - \$5,000,000)	0.60%
Next \$10 million (\$5,000,001 - \$15,000,000)	0.40%
\$15,000,001 and above	0.20%

Parsec Wealth Management clients have a \$1,250 quarterly minimum fee. The service includes portfolio management and financial planning.

Upon plan implementation, the applicable percentage fee would begin on a pro-rata basis for the quarter. Fees are billed quarterly, in advance. The fees are based on the average daily balance of the assets under management throughout the quarter. If a client has a margin balance that reduces the value of the account, Parsec adds the margin deficit back to the invoice in order to bill on it. Payment is due within 30 days after presentation of an invoice. Payment can either be by deduction from the account (with the client's permission) or check. The portfolio review is sent with the invoice.

Fees are occasionally negotiated in unusual situations. Legacy clients may be grandfathered in at a lower rate.

In addition, Parsec offers a service called Emerging Wealth for clients whose portfolios are in the accumulation phase and who need financial planning and investment advice, but who do not meet Parsec's minimum. The fee for this service is \$600 quarterly, plus an additional fee for any assets that Parsec manages. This additional fee follows our standard fee schedule, with a 50% discount on the first \$500,000 in assets.

### ***ERISA Fees***

For ERISA-qualified plan (daily valuation) consulting arrangements, the fee schedule is as follows:

<b><u>Asset Level</u></b>	<b><u>Annual Rate</u></b>
\$0 - \$1,000,000	0.50%
Next \$2 million (\$1,000,001 - \$3,000,000)	0.35%
Next \$2 million (\$3,000,001 - \$5,000,000)	0.25%
Next \$10 million (\$5,000,001 - \$15,000,000)	0.20%
\$15,000,001 and above	0.10%

The minimum annual fee is \$5,000 (\$1,250/quarter) for 3(38) Fiduciary status and \$6,000 (\$1,500) for 3(21) Fiduciary status. Fees are paid quarterly in advance.

### ***Financial Planning***

Parsec also offers a stand-alone financial planning service. This service does not provide investment management. The fee is \$2,000 for a one-time financial plan and the engagement with the client is not ongoing – it is limited to the financial plan. Half of the fee is collected in advance; while the second half is collected upon completion of the financial plan. As noted in Item 18, Parsec does not collect fees of more than \$1,200 more than six months in advance.

### ***Tax Preparation Fees***

Fees for tax preparation services will typically range between \$500 - \$1500 based on the level of complexity. Fees are charged in arrears.

### ***Other Investment Advisors***

In certain circumstances, Parsec recommends the services of other advisors, typically for fixed income management. The client signs a separate agreement with the other advisor, and Parsec facilitates payment of the fees to the other advisor. Parsec does not receive any portion of these fees.

### ***General Information on Fee and Compensation***

Client relationships can be canceled at any time by either party. Any prepaid and unearned fees will be promptly refunded.

In certain circumstances, fees, account minimums and payment terms may be negotiated depending on client's unique situation – such as the size of the aggregate related party portfolio size, family holdings, low cost basis securities, or certain passively advised investments and pre-existing relationships with clients.

Parsec's fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses which shall be incurred by the client. Mutual funds, exchange traded funds and separate account managers also charge internal management fees, which are disclosed in a fund's prospectus. Therefore, Parsec clients pay two levels of fees for these types of assets, both directly to Parsec and indirectly through fees charged by the underlying investment vehicle. Parsec shall not receive any portion of these commissions, fees, and costs.

As previously noted, Parsec uses a third-party corporate trustee for some of Parsec's clients. Parsec does not receive compensation for this service.

Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

### ***Cash Balances***

Some of your assets may be held as cash and remain uninvested. Holding a portion of your assets in cash and cash alternatives, i.e., money market fund shares may be based on your desire to have an allocation to cash as an asset class, to support a phased market entrance strategy, to facilitate transaction execution, to have available funds for withdrawal needs or to pay fees or to provide for asset protection during periods of volatile market conditions. Your cash and cash equivalents will be subject to our investment advisory fees. You may experience negative performance on the cash portion of your portfolio if the investment advisory fees charged are higher than the returns you receive from your cash.

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

Parsec Financial does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Item 7 – Types of Clients**

Parsec Financial provides portfolio management services to individuals, high net worth individuals, corporate pension, profit-sharing and 401(k) plans, foundations, endowments, charitable organizations, trusts, estates and corporations or other businesses.

Parsec does not require a minimum account size.

### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Fundamental Analysis**, which attempts to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).



Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock. When we invest our clients' money, we construct a portfolio with a purposeful design that considers long-term historical returns, historical volatility and the correlation between assets.

We have designed a set of model portfolios to meet different client objectives. Each client is assigned one of these model portfolios, according to the client's goals, cash flow needs and risk tolerance. Every client's portfolio is not the same, however. Differences occur due to the timing of the initial investments, client preferences and legacy holdings. We strive to construct similar portfolios for clients with similar risk tolerance levels and objectives, i.e. a similar percentage in international companies, fixed income, small/mid cap companies, and various market sectors.

When designing a portfolio, we determine the appropriate weight for each of the following components:

- International equities, including developed and emerging markets
- Large, mid and small cap equities
- Mix of growth and value companies
- Equity market sectors, avoiding "sector bets" or investing dramatically more or less in a particular sector than what would be represented in a broad market index
- Fixed income types: domestic taxable, domestic tax-free or municipal, international bonds, TIPS (Treasury Inflation Protected Securities), asset-backed securities, and high-yield
- Fixed income duration: short, intermediate and long-term debt

Once we determine the appropriate asset allocation for each model portfolio, we look for the best investment vehicle to provide exposure to those areas, such as:

- Individual stocks and bonds
- Mutual funds (equities and fixed income)
- Exchange-Traded Funds (equities and fixed income)

Once we determine the appropriate investment vehicle, we then conduct extensive due diligence on a variety of securities to find those that best match our objectives. We take a long-term investment approach that focuses on diversification, client suitability, and tax efficiency.

Regarding individual stock selection, we follow a bottom-up process that seeks to identify high-quality companies, typically with market capitalizations of \$3 billion or higher, that are currently trading at attractive or discounted valuations relative to history or to future growth prospects. We look for companies with a long track record of consistent earnings and cash flow growth, healthy balance sheets, and competitive market positions. We prefer companies that engage in shareholder friendly activities including a history of dividend payments and, when external growth opportunities are subpar, share buybacks.

Specifically, we focus on the following fundamentals in order to identify stocks with attractive risk/reward return profiles:

- Current valuation relative to projected earnings growth;
- Level and consistency of profit margins, earnings and dividends;
- Degree of financial leverage, avoiding heavily indebted companies;
- Return on invested capital versus cost of capital;
- Price/earnings ratio relative to the overall market and to the company's own historical range.

When appropriate to the client circumstances, we also invest in fixed income. We view fixed income as a means of diversifying a client's portfolio, providing a source of spending during negative equity markets, and to dampen volatility. In addition, we may include a small amount of alternative investments to a client's portfolio, depending on market conditions.

Based on our research and analysis, we have compiled a recommended list of securities. We continually monitor the prices of the securities on this list, as well as any new developments regarding these holdings. In addition, every security in our coverage universe is formally reviewed at least two times a year, and more often if circumstances dictate.

The Firm's Research Committee meets approximately every two weeks to review individual securities, mutual funds, exchange-traded funds, and separate account managers, in order to update their investment recommendations on these securities and managers on a regular basis.

### **Covered Call Strategy**

In certain limited circumstances we may use a covered call strategy. A covered call is an option strategy whereby the investor holds a position in a stock and writes (sells) call options on that same stock in an attempt to generate increased income from the stock. We may utilize this investment strategy for portfolios with concentrated positions (currently defined as an individual stock representing 5% or more of the stock portion of a client's portfolio). We do this with the goal of reducing stock-specific risk by reducing the size of the concentrated position over time, while increasing income by the premiums received for the sale of covered calls against the position(s) in the account.

An investor should consider that the risk level in these accounts is somewhat reduced by the sale of the calls, but the upside potential of the position(s) on which the strategy is being used is also limited by the sale of the calls.

**Investing in securities involves risk of loss that clients should be prepared to bear.** Investment risk consists of both systematic risk and unsystematic risk. Unsystematic risk is not related to the market as a whole, but rather is associated with a specific investment. Systematic risk is the risk associated with the overall market that is not unique to any one investment vehicle.

It is possible to reduce unsystematic risk by creating a portfolio diversified across many different companies and sectors. It is not possible to eliminate systematic risk. Macroeconomic factors such as inflation, unemployment, corporate earnings, commodity prices, and interest rates all contribute to systematic risk since they influence the prices of all risky assets. However, it is possible to lower systematic risk somewhat by diversifying internationally, since economic variables in the U.S. are not perfectly correlated with those in other countries. Of course, investing internationally exposes investors to risks related to social, political, and economic factors, as well as fluctuating exchange rates.

Other risks the investor should be prepared to bear include:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while certain other types of assets (i.e. Non-traded REITs and other alternative investments) are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Parsec or the integrity of Parsec's management. Parsec Financial has no information applicable to this item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Parsec is not registered as a broker-dealer, and none of its management persons are registered representatives of a broker-dealer.

Parsec is not registered and does not have an application pending as a securities broker-dealer, futures commission merchant, commodity pool operator or commodity trading advisor.

Parsec assists clients with Trust management through National Advisors Trust (NATCO). Parsec Financial acts as investment manager of trust assets, while NATCO provides trustee services.

Disclosure for National Advisor's Trust (NATCO): National Advisor's Trust. Parsec Financial Management, Inc. is a shareholder of National Advisors Holdings, Inc. ("NAH"), a Delaware corporation organized in August 1998. Parsec holds a minority interest, in the aggregate, of the outstanding stock of NAH. NAH has formed a federal trust company known as National Advisors Trust Company ("NATCO"). NAH and NATCO are regulated by the Office of the Comptroller of the Currency. The trust company provides a low-cost alternative to traditional trust service providers and plans to provide trust services to clients of investment advisory firms, such as Parsec, across the United States. Parsec refers clients to NATCO for trust services. NATCO can support client needs in all 50 states and provides trustee services and the safekeeping of client trust assets, while Parsec Financial provides investment management to the assets in those trusts.

Parsec engages Chicago Clearing to provide class action litigation monitoring and securities claim filing services. Chicago Clearing files all claim forms on behalf of clients, monitors all claims, collects applicable documentation, interprets the terms of each settlement, files the appropriate

claim forms, interacts with the administrators, and distributes claim awards directly to clients enrolled in the service. Chicago Clearing charges a contingency fee of 15%, which is subtracted from the award when it is paid. The proceeds are then sent directly to the client's account. Unless a client chooses to opt out of this service, they are automatically enrolled as part of the account opening process, and Parsec provides their account transaction information to Chicago Clearing to assist with the class action research. If a client prefers to file their own securities litigation claim forms, they must opt out of the service by signing the Chicago Clearing opt out section of the Service Agreement (part of the account opening documents). If clients do not participate in this service, they are responsible for pursuing their own claims.

### **Item 11 – Code of Ethics**

Parsec has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Parsec must acknowledge the terms of the Code of Ethics annually, or as amended.

Parsec's employees are required to follow Parsec's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Parsec are allowed to trade for their own accounts in securities which are recommended to and/or purchased for Parsec's clients. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of Parsec will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The Code requires pre-clearance of individual equity transactions. All employees are required to provide annual securities holdings reports and quarterly transaction reports to the CCO. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Parsec and its clients.

Neither Parsec nor its employees recommend to clients, or buy or sell for client accounts, securities in which they have a material financial interest.

It is Parsec's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts. Parsec will also not cross trades between client accounts.

Parsec's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Harli Palme, Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

### ***Research and Other Soft Dollar Benefits***

Parsec does not receive formal soft dollar benefits other than execution from broker/dealers in connection with client securities transactions. See information in Other Economic Benefits below.

### ***Brokerage for Client Referrals***

Parsec receives client referrals from broker/dealers. Please see Item 14 – Client Referrals for more information.

### ***Directed Brokerage***

Parsec will recommend a registered broker dealer, bank or trust company to act as a separate custodian to take possession of the cash, securities, and other assets in the Account. Parsec's clients ("Client") directs Parsec to place all trades (other than those involving individual bonds) for client account(s) solely through the custodian selected and appointed by the Client. Parsec will not seek best execution through other broker dealers on the Client's behalf except for transactions in individual bonds. Parsec recommends either Charles Schwab & Co., Inc., Fidelity Registered Investment Advisor Group, and T.D. Ameritrade as custodians for client assets. Parsec regularly reviews its custodial brokerage recommendations and believes that its recommendations are consistent with its fiduciary duty.

Clients may select other brokers. Parsec will not have authority to negotiate commissions or obtain volume discounts and best execution may not be achieved because client has agreed to direct the use of a particular broker.

By assigning a custodian for the assets, the client directs Parsec to execute all trades solely through the selected bank or registered broker-dealer. In instances where multiple banks or broker-dealers are used, trades will be placed with the custodian who holds the assets for the account in which trades are being executed, except for fixed income prime broker trades as described below.

Parsec's Brokerage Committee meets on at least an annual basis to review the firm's brokerage practices and brokerage services received from the various broker-dealers used. As part of the Brokerage Committee's review of the firm's brokerage practices, the following factors are considered in the review of broker-dealers and their services:

- Level of commission rates (typically a flat, per-transaction charge);
- Availability and quality of research;
- Quality of executions;
- Operations/settlement services;
- Trade errors;
- Reliability for firm;

- Accuracy and quality of firm's reports; and
- Support software/hardware provided.

### ***Other Economic Benefits***

In general, Parsec receives software, services, and/or products from the brokers we recommend. Specific disclosures from Charles Schwab & Company, Inc., Fidelity Registered Investment Advisor Group, T.D. Ameritrade, and National Advisors Trust (NATCO) appear below:

**Disclosure for Charles Schwab & Company, Inc.:** Parsec is independently owned and operated and not affiliated with Schwab. Schwab provides Parsec with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets is maintained in accounts at Schwab Institutional.

Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

Schwab also makes available to Parsec other products and services that benefit Parsec but do not benefit its clients' accounts. Some of these other products and services assist Parsec in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Parsec's fees from its clients' accounts; and assist with back-office functions, recordkeeping, and client reporting.

Schwab Institutional also makes available to Parsec other services intended to help Parsec manage and further develop its business enterprise. These services include consulting, publications, and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange, and/or pay for these types of services rendered to Parsec by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Parsec.

To minimize paperwork, Schwab has a firm wide policy to absorb all trade error costs under \$100. They do not have that policy to gain business or to influence trades in their direction. Other brokers with whom Parsec deals do not have this policy.

As a fiduciary, Parsec endeavors to act in its clients' best interests. Parsec's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to Parsec of the availability of some of the foregoing products and services and not solely on the nature,

cost, or quality of custody and brokerage services provided by Schwab, which creates a conflict of interest.

A member of Parsec's senior management serves on the Schwab Advisor Services Technology, Operations and Service Advisory Board (the "TOS Advisory Board"). Parsec may recommend that clients establish brokerage accounts with Charles Schwab & Co., Inc. ("Schwab") and/or its affiliates (e.g. TD Ameritrade Institutional) to maintain custody of the clients' assets and effect trades for their accounts. The TOS Advisory Board consists of representatives of independent investment advisory firms who have been invited by Schwab management to participate in meetings and discussions of Schwab Advisor Services' services for independent investment advisory firms and their clients. TOS Advisory Board members enter nondisclosure agreements with Schwab under which they agree not to disclose confidential information shared with them. This information generally does not include material nonpublic information about the Charles Schwab Corporation, whose common stock is listed for public trading on the New York Stock Exchange (symbol SCHW). The TOS Advisory Board meets in person or virtually approximately twice per year and has periodic conference calls scheduled as needed. TOS Advisory Board members are not compensated by Schwab for their service, but Schwab does pay for or reimburse TOS Advisory Board members' travel, lodging, meals and other incidental expenses incurred in attending Board meetings.

**Disclosure for Fidelity Registered Investment Advisor Group:** Parsec may receive from *Fidelity*, without cost to Parsec, computer software and related systems support, which allow the firm to better monitor client accounts maintained at *Fidelity*. Parsec may receive the software and related support without cost because Parsec renders investment management services to clients that maintain assets at *Fidelity*.

Specifically, Parsec may receive the following benefits from *Fidelity* through the Fidelity Registered Investment Advisor Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Advisor Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

**Disclosure for T.D. Ameritrade:** Parsec participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Parsec receives some benefits from TD Ameritrade through its participation in the Program.



As disclosed above, Parsec participates in TD Ameritrade's institutional customer program and may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Parsec's participation in the program and the investment advice it gives to its Clients, although Parsec receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Parsec by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Parsec's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Parsec but may not benefit its Client accounts. These products or services may assist Parsec in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Parsec manage and further develop its business enterprise. The benefits received by Parsec or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Parsec endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Parsec or its related persons in and of itself creates a conflict of interest and may indirectly influence the Parsec's choice of TD Ameritrade for custody and brokerage services.

Parsec Financial considers a number of factors in selecting brokers and custodians at which to recommend location of its client accounts, including, but not limited to, execution capability, experience and financial stability, reputation, and the quality of services provided. In selecting TD Ameritrade, Inc, as the broker and custodian for certain of its current and future client accounts, Parsec takes into consideration its arrangement with TD Ameritrade as to obtaining price discounts for TD Ameritrade's automatic portfolio rebalancing service known as "iRebal."

The standard iRebal annual license fee applicable to Parsec is \$90,000. That fee is subject to specified reductions (and even complete waiver) if specified amounts of client taxable assets are placed on the TD Ameritrade Institutional platform. Specified taxable client assets either maintained on or committed to the TD Ameritrade platform will bring fee reductions of up to \$90,000 per year for each of as many as three years or more.

The non-taxable assets excluded from the commitment levels described above are those that constitute "plan assets" of plans subject to Title 1 of the Employee Retirement Income Security

Act of 1974, amended, or of plans as defined in Section 4975 of the Internal Revenue Code (which include IRAs).

If Parsec does not maintain the relevant level of taxable assets on the TD Ameritrade platform, Parsec may not be eligible to receive the entire available price discount for iRebal and may therefore have to pay additional fees to TD Ameritrade calculated on the basis of the shortfall.

Although Parsec believes that the products and services offered by TD Ameritrade are competitive in the marketplace for similar services offered by other broker-dealers or custodians, the arrangement with TD Ameritrade as to the iRebal service may affect Parsec's independent judgment in selecting or maintaining TD Ameritrade as the broker or custodian for client accounts.

### ***Trade Aggregation***

The Research Committee or Investment Policy Committee will periodically recommend a firm-wide trade, or block trade. Block trades aggregate the trade order of all clients for whom the trade is recommended. All clients participating at each custodian will receive the same average price. A block trade log is maintained to show the rotation of order between custodians. Parsec will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the submission of the aggregated order. Completed orders will be allocated as specified initially. Partially filled orders will be allocated on a random basis, as determined by our trading software. Any exceptions will be documented with the order, or the trade log, or in the client notes within our client relationship management software.

Parsec allows employees to include their trades in with the aggregated block trade. As such, employees participating in block trades will receive the same price on aggregated orders as clients. Parsec includes its own employee profit sharing plan in aggregated orders as well.

### **Item 13 – Review of Accounts**

Parsec provides ongoing advice to the client regarding their investments. Client accounts are reviewed regularly. The manner in which accounts and securities are reviewed include:

- All covered securities are reviewed approximately twice per year, as part of our ongoing due diligence, as described in Item 8.
- Dependent upon our findings during routine security due diligence, securities may be bought or sold for groups of clients at the same time as needed, and as directed, by our Research Committee, Investment Policy Committee, and the client's Investment Policy Statement.
- Daily deposit and withdrawal reports are reviewed to address client cash needs.
- Client portfolios are reviewed monthly for excess cash, and for target asset allocation drift.

- Client portfolios are reviewed annually, and often more frequently, for sector rebalancing, individual stock weightings, as well as allocation drift.

Additional account reviews may be necessary due to a change in client goals and objectives, economic or market conditions or specific client requests. All reviews are performed by a financial advisor or a member of the portfolio management department.

Advisors may also schedule client meetings on a periodic basis, or on client request, to review a client's portfolio, performance, market conditions, financial circumstances, and investment objectives. The meeting would also serve to confirm that Parsec's investment decisions and services are consistent with the client's objectives and goals.

Clients receive written reports on a quarterly basis, which include information about their portfolio holdings and values. Reports also provide performance information, including a reference to relevant market indices or benchmarks.

## **Item 14 – Client Referrals and Other Compensation**

### ***Other Compensation***

Parsec does not receive any economic benefits outside of the benefits described in Item 12 – Brokerage Practices from any firm or individual for providing investment advice.

### ***Client Referrals***

Parsec has written arrangements to pay referral fees to individuals or companies (solicitors) who refer prospective clients to the Firm. In these cases, there is a written agreement between Parsec and the solicitor, which clearly defines the duties and responsibilities of the solicitor under the arrangement. In addition, each solicitor is required to provide a written disclosure document to the client, which describes the prospective client the terms under which the solicitor is working with Parsec and the fact that the solicitor is being compensated for the referral activities. Clients referred to Parsec are not charged additional fees as a result of the referral.

(a) Charles Schwab. Parsec receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through Parsec's participation in Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of, and unaffiliated with, Parsec. Schwab does not supervise Parsec and has no responsibility for Parsec's management of clients' portfolios or Parsec's other advice or services. Parsec pays Schwab fees to receive client referrals through the Service. Parsec's participation in the Service raises conflicts of interest described below.

Parsec pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by Parsec is a percentage of the fees the client owes to Parsec or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. Parsec pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to Parsec quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Parsec and not by the client. Parsec has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Parsec charges clients with similar portfolios who were not referred through the Service.

Parsec generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Advisor generally would pay in a single year. Thus, Parsec will have an incentive to recommend that client accounts for Schwab-referred clients be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Parsec's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Parsec will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab. For accounts of Parsec's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from Parsec's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab.

(b) Western Carolina Medical Society (WCMS). Parsec participates in the Preferred Vendor Program with the Western Carolina Medical Society. WCMS lists our services and makes information available to prospective physician clients via their website, social media and weekly e-newsletter. Parsec also receives a copy of the WCMS membership list and its monthly updates. Parsec pays an annual fee of \$2,000 payable to WCMS in return for the right to participate in the Preferred Vendor Program. WCMS will list Parsec's services, as well as its discount to WCMS members (20% discount from Parsec's currently published schedule on the first million dollars of assets managed), making this information available to prospective physician clients.

## **Item 15 – Custody**

The client will appoint a bank or registered broker-dealer to act as a separate custodian to take possession of the cash, securities, and other assets in the account. Parsec has written ongoing authorization to wire money between the client's accounts held with the qualified custodian

directly to an outside financial institution (i.e. a client's bank account) ("First-Party Money Movement"). A copy of this authorization is provided to the qualified custodian. The authorization includes the client's account number(s) at the outside financial institution(s) as required.

Clients may provide Parsec with a standing letter of authorization (or similar asset transfer authorization) which allows Parsec to disburse funds on behalf of clients to third parties. Parsec ensures the following conditions are in place when deemed to have custody via third party money movement:

1. The client provides a Written Authorization to the custodian that includes all appropriate information as to how the transfer should be directed;
2. The Written Authorization includes instruction to direct transfers to the third party either on a specified schedule or from time to time;
3. Appropriate verification is performed by the custodian, along with a transfer of funds notice to the client promptly after each transfer;
4. The client may terminate or change the instruction to the custodian;
5. The Firm has no authority or ability to designate or change any information about the third party contained in the instruction;
6. The Firm maintains records showing that the third party is not a related party of the Firm or located at the same address as the Firm; and
7. The custodian sends the client a written initial notice confirming the instruction and an annual written confirmation thereafter.

Clients should receive monthly statements (or at least quarterly) from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Clients are encouraged to compare their custodian-provided account statements with their Parsec-prepared quarterly statements.

## **Item 16 – Investment Discretion**

Parsec's Service Agreement grants Parsec discretionary trading authority in client accounts. For new clients, the policy is to review the proposed portfolio with the client prior to making any trades. Once the initial portfolio has been implemented, we do not contact the client for approval of any trades, including buys and sells.

Parsec's discretionary authority also includes the authority to hire and fire third-party investment managers on a client's behalf.

If a client's managed portfolio is over \$1,000,000 in assets, the client may request to be considered non-discretionary and must sign a separate authorization. If the client denies discretionary

authority, then he or she will be contacted for approval in advance of every trade. This contact may be in the form of a letter, e-mail, in person, or phone call.

Parsec cannot place any trades without a response from a non-discretionary client. This includes: trades needed to meet periodic distributions, non-sufficient fund checks presented for payment against the client's brokerage account, or emergency situations resulting from adverse market conditions or factors impacting individual securities. Non-discretionary accounts will not be automatically included in block trades, which may result in a delay in trading and inhibit best execution.

When selecting securities for both discretionary and non-discretionary clients, Parsec observes the investment policies, limitations and restrictions of the clients for which it advises.

### **Item 17 – Voting Client Securities**

Parsec accepts discretionary authority to vote proxies for trust accounts with corporate trustees, as well as for commingled and daily-valuation ERISA accounts and foundations where the trustee has chosen not to retain voting authority. In addition, for clients opting into our Socially Responsible Investing (SRI) portfolio, Parsec will vote proxies consistent with SRI guidelines, if the client chooses to give Parsec this authority.

For those clients for whom Parsec has undertaken to vote proxies, Parsec retains the final authority and responsibility for such voting subject to any specific restrictions or voting instructions by clients.

Parsec has adopted standard voting parameters addressing the vast majority of proxy matters with which it is familiar. Parsec further reviews its proxy voting practice to determine whether any material conflicts of interest are present. In the event of a vote involving a conflict of interest that does not meet the specific voting parameters of Parsec's proxy voting guidelines or requires additional company-specific decision making, Parsec may seek an independent recommendation or request client consent on the issue.

Parsec uses Egan-Jones, an independent provider of global governance services, to research proxy voting matters and make recommendations that serve the best interest of shareholders. In short, the proxy voting guidelines support practices that Egan-Jones believes are in the best interest of shareholders, with an additional overlay that supports:

- Board refreshment and diversity
- Compensation plans that reward pay for performance
- Environmental sustainability reporting and disclosure
- International human rights standards

Clients may request a copy of Parsec's complete proxy voting policy from the Chief Compliance Officer. Clients may also request voting records of how securities have been voted in their particular account. Please provide Parsec with a reasonable time to compile records following a client request.

Clients for whom Parsec does not vote proxies will receive their proxies directly from their custodian. For questions regarding proxy voting, please contact Harli Palme, Chief Compliance Officer.

### **Item 18 – Financial Information**

Registered investment advisors are required in this Item to provide you with certain financial information or disclosures about our financial condition. Parsec has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.

Parsec does not require prepayment of fees of both more than \$1,200 per client, and more than six months in advance; and therefore, is not required to provide a balance sheet to clients.